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ADDRESS

OF

B. E. WALKER,

President, Canadian Bankers' Association

GIVEN AT MEETING

OF

NEW YORK STATE BANKERS' ASSOCIATION,
SARATOGA, 10TH JULY, 1895

TORONTO :
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THIS is the third time I have been invited to address an American audience on the subject of banking and currency, with express reference to the admitted imperfections of your system and the alleged superiority of the Canadian system, and while in the mere desire for information, I recognize that avariciousness for other things than money of which Emerson wrote as characteristic of the American people, I recognize still more the open-mindedness and generosity which admits the possibility that the small and scattered community to the north, still struggling for a place among the nations, may have developed institutions worthy of your study and perhaps imitation.

But notwithstanding your generosity, I could not have the hardihood to address you on a subject involving criticism of some features in your national affairs, were it not that I may claim the right to discuss a family difficulty to some extent as an inmate, if not a member, of the household. The bank with which I am connected has for 23 years been doing business in New York and one of our border offices exists mainly to lend money in the Western States, while our interests really extend almost throughout the United States. If I also add that I resided many years in New York, I hope you will all feel that I have no pleasure in mere criticism, but only in what prospect there may be of reform in the currency and banking of this great country.

CANADA

I will not speak directly of Canadian banking. I have elsewhere expressed my views on that subject, and now that we possess a complete history* of its development from the beginning in 1817 down to date, written by an American, a Cornell graduate and a fellow of Columbia, and already re-published by an American economic society, it is no longer necessary. In any event I would much prefer that you should believe all the handsome things your president has said about us and which I would not dare to repeat.

If we compare banking in the United States with the other prominent systems of the world, we are struck with certain features in which your system differs. As these other systems represent the two great classes of banks: (1) those which are the result of compromise between the commercial needs of the people and the necessities of the government, such as England, France and Germany; and (2) those which more nearly represent only the commercial needs, such as Scotland and Canada, we may fairly conclude that any quality possessed by the five countries named is inherent in sound banking, and if not included in your system its lack is surely subject for careful study. Now in all five countries the banks are few in number, with large capital and branches, while the banks of the United States are numbered by thousands, have individually small capital and no branches. In the five countries the paper money is created almost altogether by the banks, and these are, of course, in constant touch with the business community. In the United States the paper money, by whatever name it may be known, is practically all created by the Government, which is not in touch with the business community. These are two startling differences and in my opinion both of paramount importance. I do not think I am wrong in saying that these two differences are the causes of most of the present evils in the finances of the United States, and if we add the third quality possessed by the National Banking System, of legal reserves, we have the three most potent causes of high interest rates and panics.

It will occur to every banker present that at one time the United States did not differ so widely from the other countries in the features mentioned. It once possessed a real National bank with large capital and branches; it had other banks with branches;

*The Canadian Banking System, Brookfield, published in Journal Canadian Bankers' Association, and republished by American Economic Association, 1895.

its currency, although in many ways very unsatisfactory, was entirely created by banks, and it had no such peculiar feature as an attempt to make men wise in the matter of reserves by legislation. It is customary to charge the present difficulties to the war, but I hope I shall offend no Democrat here if I lay the charge mainly at the feet of Andrew Jackson. Before 1832, as since, banking was hampered by the fact that the franchise was granted by the State and not by the Federal Government, and this is perhaps the greatest cause of the thousands of small banks in place of the few great ones; still, in these early days of banking some State banks had branches, and there was one great bank with branches which might have wrought many changes in time by its example. But the United States Bank, as we all know, was ruthlessly destroyed by Jackson refusing to renew its charter, and the events of the ensuing years during which in its struggle for existence it pursued a course not more free from blame than the Government, have caused many to misunderstand the true meaning of the history of that eventful time in banking. The absence of the United States Bank, or of any great institution of national importance, and the existence of a Treasury system which compelled the Government to carry on its finances without the aid of such a bank, caused the issue in 1861 of Government circulating notes not bearing interest. We need not enter into reasons, but this was followed by the National Banking Act and, as a necessity, by the Federal tax of 10 per cent. per annum on the circulation of all State bank notes. The National bank notes were only bank notes in name. For all practical purposes the Federal Government had destroyed the bank-note issues of the country and had availed itself of the temporary advantage flowing from the possession of such a power, only to discover later the terrible responsibility also involved. The issue of non-interest bearing, and at the time irredeemable, paper money by the Government created or revived the theory that no one but the Government should create paper money. The greenback agitation easily followed, and while directly unsuccessful, was indirectly responsible for the silver legislation of 1878 and subsequent years.

Out of the welter of this history five different kinds of paper money exist in theory and four in fact. 1. State bank notes in theory, suppressed in fact by the tax. 2. War legal tenders. 3. National bank notes. 4. Bland silver certificates. 5. Sherman silver purchase notes. All of the four last classes of notes are not directly redeemable by the Treasury in coin, but practically the

Treasury must redeem any of them in *gold*, or this great country must pass from its present position of one of the gold-standard as opposed to the silver-standard countries of the world. The Treasury, as I have said, is not in touch with the business community, but has been made by Congress to assume this terrible responsibility without having the power, except by such costly expedients as that referred to here to-day, to maintain its stock of gold. I do not need to enlarge upon it to an audience of bankers. The responsibilities of the Treasury are unbearable, and if there is to be a reform in banking and currency it must involve the redemption, gradually or speedily as the circumstances may warrant, of the issues of the Government. I hope reformers will not be satisfied indeed until the Government has retired from the business of banking and returns to its only proper function in connection with money, the minting of metallic money. The Treasury should give up its note-issuing functions, except, perhaps, as the issuer of certificates for gold lodged, not merely because its responsibilities have become unbearable, but also because it is incapable of performing the note-issuing function satisfactorily.

The question as to whether the Treasury should surrender and the banks resume the function of issuing paper money is clearly before the people of the United States, but the question of reforming the system of banking in other respects is not, and my text is that the two reforms are necessary to each other, that the free flow of loanable capital is as vital to sound finances as an elastic currency. Permit me to repeat from an address at Chicago, my attempt to state what is necessary in a banking system in order that it may answer the requirements of a rapidly growing country and yet be safe and profitable ?

1. It should create a currency free from doubt as to value, readily convertible into specie, and answering in volume to the requirements of trade.

2. It should possess the machinery necessary to distribute money over the whole area of the country, so that the smallest possible inequalities in the rate of interest will result.

3. It should supply the legitimate wants of the borrower, not merely under ordinary circumstances, but in times of financial stress, at least without that curtailment which leads to abnormal rates of interest and to failures.

4. It should afford the greatest possible measure of safety to the depositor.

Before taking up the question of note-issues let me also quote from the same address some remarks enlarging upon the necessity for a free flow of loanable capital and bearing on other requirements in a banking system apart from note-issues.

"In discussing the banking systems in older countries, the borrower is not often considered. Men must borrow where and how they can, and pay as much or as little for the money as circumstances require. I believe too strongly in the necessity for an absolute performance of engagements, to think that it is a requirement in any banking system that it shall make the path of the debtor easy. Every banker should discourage debt, and keep before the borrower the fact that he who borrows must pay or go to the wall. But in America the debtor class is apt to make itself heard, and I wish to show what our branch system does for the worthy borrower as compared with the United States National Banking System.

In a country where the money accumulated each year by the people's savings does not exceed the money required for new business ventures, it is plain that the system of banking which most completely gathers up these savings and places them at the disposal of the borrowers, is the best. It is to be remembered that this involves the savings of one slow-going community being applied to another community where the enterprise is out of proportion to the money at command in that locality. Now, in Canada, with its banks with forty and fifty branches, we see the deposits of the saving communities applied directly to the country's new enterprises in a manner nearly perfect. The Bank of Montreal borrows money from depositors at Halifax and many points in the Maritime Provinces where the savings largely exceed the new enterprises, and it lends money in Vancouver or in the Northwest, where the new enterprises far exceed the people's savings. My own bank in the same manner gathers deposits in the quiet unenterprising parts of Ontario, and lends the money in the enterprising localities, the whole result being that forty or fifty business centres, in no case having an exact equilibrium of deposits and loans, are able to balance the excess or deficiency of capital, economizing every dollar, the depositor obtaining a fair rate of interest, and the borrower obtaining money at a lower rate than borrowers in any of the colonies of Great Britain, and a lower rate than in the United States, except in the very great cities of the East. So perfectly is this distribution of capital made, that as between the highest class borrower in Montreal or Toronto, and the ordinary

merchant in the Northwest, the difference in interest paid is not more than one to two per cent.

In the United States, as we know, banks have no branches. There are banks in New York and the East seeking investment for their money, and refusing to allow any interest because there are not sufficient borrowers to take up their deposits; and there are banks in the West and South which cannot begin to supply their borrowing customers, because they have only the money of the immediate locality at their command, and have no direct access to the money in the East, which is so eagerly seeking investment. To avoid a difficulty which would otherwise be unbearable, the western and southern banks sometimes rediscount their customers' notes with banks in the East, while many of their customers, not being able to rely on them for assistance, are forced to float paper through eastern note-brokers. But, of course, the western and southern banks wanting money, and the eastern banks having it, cannot come together by chance, and there is no machinery for bringing them together. So it follows that a Boston bank may be anxiously looking for investments at four or five per cent., while in some rich western State ten and even twelve per cent. is being paid. These are extreme cases, but I have quoted an extreme case in Canada, where the capital marches automatically across the continent to find the borrower, and the extra interest obtained scarcely pays the loss of time it would take to send it so far, were the machinery not so perfect.

As I have indicated, it should be the object of every country to economize credit, to economize the money of the country so that every borrower with adequate security can be reached by someone able to lend, and the machinery for doing this has always been recognized in our banks. That is surely not a perfect system of banking under which the surplus money in every unenterprising community has a tendency to stay there, while the surplus money required by an enterprising community has to be sought at a distance. But if by paying a higher rate of interest, and seeking diligently, it could always be found, the position would not be so bad. The fact is that when it is most wanted, distrust is at its height, and the cautious eastern banker buttons up his pocket. When there is no inducement to avert trouble to a community by supplying its wants in time of financial stress, there is no inclination to do so. The individual banks, East or West, are not apt to have a very large sense of responsibility for the welfare of the country as a whole, or for any considerable portion of it. But the

banks in Canada, with thirty, forty, or fifty branches, with interests which it is no exaggeration to describe as national, cannot be idle or indifferent in time of trouble, cannot turn a deaf ear to the legitimate wants of the farmer in the prairie provinces, any more than to the wealthy merchant or manufacturer in the East. Their business is to gather up the wealth of a nation, not a town or city, and to supply the borrowing wants of a nation.

There was a time in Canada, about twenty years ago, when some people thought that in every town a bank, no matter how small, provided it had no branches, and had its owners resident in the neighbourhood, was a greater help to the town than the branch of a large and powerful bank. In those days, perhaps, the great banks were too autocratic, had not been taught by competition to respect fully the wants of each community. If this feeling ever existed to any extent, it has passed away. We are, in fact, in danger of the results of over-competition. I do not know any country in the world so well supplied with banking facilities as Canada. The branch system not only enables every town of 1,000 or 1,200 people to have a joint-stock bank, but to have a bank with a power behind it generally twenty to fifty times greater than such a bank as is found in towns of similar size in the United States would have.

But one of the main features of the branch system is connected intimately with our power to issue notes based upon the general assets of the bank. When the statement of a large Canadian bank is examined by an American banker, the comparatively small amount of actual cash must be noticeable. He will notice that the bank is careful to have large assets in the United States which may be taken back to Canada in times of financial strain there, and large assets in convertible shape at home, but having regard to actual cash as the machinery for carrying on the business at the counter, how can a bank with forty or fifty branches get along with so little cash? The simple answer is that the tills of our branches are filled with notes which are not money until they are issued, and which, therefore, save just that much idle capital and just that much loss of interest."

Later on I hope you will see more clearly why I regard the branch system as a natural adjunct to a sound bank currency in this country.

Now as to the great question of bank-note issues. I cannot undertake to discuss the many schemes now before the public. I am naturally most interested in such proposals as those made by

the bankers at Baltimore, by Mr. Carlisle, and by some others, avowedly influenced by the Canadian system, and I can only speak very generally regarding the differences between these and the Canadian system, and as to the probability of our system being workable in the United States at all. Permit me first to state briefly the distinctive features of the Canadian bank-note issues:

(a) They are not secured by the pledge or special deposit with the Government of bonds or other securities, but are simply credit instruments based upon the general assets of the banks issuing them.

(b) But in order that they may be not less secure than notes issued against bonds deposited with the Government, they are made a first charge upon the assets.

(c) To avoid discount for geographical reasons, each bank is obliged to arrange for the redemption of its notes in the commercial centres throughout the Dominion.

(d) And finally, to avoid discount at the moment of the suspension of a bank, either because of delay in payment of note issues by the liquidator or of doubt as to ultimate payment, each bank is obliged to keep in the hands of the Government a deposit equal to five per cent. on its average circulation, the average being taken from the maximum circulation of each bank in each month of the year. This is called the Bank Circulation Redemption Fund, and should any liquidator fail to redeem the note of a failed bank, recourse may be had to the entire fund if necessary. As a matter of fact, liquidators almost invariably are able to redeem the note issues as they are presented, but in order that all solvent banks may accept without loss the notes of an insolvent bank, these notes bear six * per cent. interest from the date of suspension to the date of the liquidator's announcement that he is ready to redeem.

The Baltimore plan departs from this system in the very important respect that the Government is to actually guarantee the notes. This, in my opinion, is an absolutely fatal objection. The strongest element of security in our issues is the fact that they are subjected to actual daily redemption. They are absolutely good, but it is not in the interest of any bank to pay out the note of any other bank, and consequently the notes of all other banks go into the clearings for redemption, or are returned direct. Therefore, no weak institution dares to issue notes except with due regard to its

* Reduced to five per cent. by amending Act passed in 1900.

ability instantly to redeem, and if its business dwindles, its circulation also dwindles. It cannot fly kites with its notes because the punishment is too swift. Let the Government once guarantee on the faith of the insurance fund provided by the banks, and you are paying a direct premium on the issue of dishonest currency. Apart from this, the Baltimore and Carlisle plans are different only in details not worth discussing at this moment. The great difference between these plans and the Canadian system is not in the principles, for these are nearly similar, but in the banks to which they would be applied. Can the franchise intrusted in Canada to a few banks with large capital, branches, and whose proportions are such that they are subject to the vigilant scrutiny of an unusually critical public, be safely entrusted to perhaps several thousand banks, in but few cases large enough to be the objects of anything but local scrutiny? I will not assert that it could not be done. In fact, I think it could. But this is a doubt so grave in the minds of many, that it is to them conclusive against these plans. But as far as I know, no other plan has been offered which is as effective in the direction of reform, and some plans are merely compromises between this new *theory* and such existing *facts* as the National and State banking systems.

But if the above, or any other principle respecting note issues, were accepted by the majority of bankers, and the question of State and Federal powers were harmoniously adjusted so that the system would be uniform, what are the other difficulties?

First. The new system would doubtless have to permit of the contemporary existence of the National Banking System with its present bond-secured notes, at least for a time. No change so radical as to destroy at once the bond-secured notes would be practicable.

Second. If such a great reform as the retirement of the war legal tenders, that part of the National debt which costs no interest, were approved by the people, it would doubtless only be in such a manner as to cause their gradual removal, and while the new bank-notes could only fill the gap left by such removal, the new banks should be ready to perform any purely banking functions which the Treasury might in this way be resigning, such as supplying gold for foreign shipments, etc.

Third. The above remarks also apply to the Treasury issues represented by silver dollars or silver bullion. When I turn to the invitation of your President, I find that I am asked to give "A Canadian view of the present financial situation in the United

States. What action should be taken, and prospects and probabilities as to what action will be taken." It might be argued that this all refers to the question of the free coinage of silver, for while many of us hoped that we were to be compensated for the sufferings of 1893 by never hearing any further arguments in favor of free coinage, it seems that we were deluded and questions of currency and banking reform do not actually exist as "practical politics" until the question is settled. But if,—a very great if,—if we can dispose of the question of free coinage and face the problem of what is to be done with the Bland silver certificates and the Sherman legal tenders, is it not clear that any plan for their retirement must be very gradual indeed?

With all these difficulties it will be strange if any but compromise measures are effected at first. Too many existing interests have to be convinced, too many selfish sectional views will be pushed forward, and the necessary changes are too radical to be effected without the aid of the great adjuster, time. But with the growth of State banking associations such as this, as well as some self-assertion by the American Bankers' Association, it is to be hoped that bankers will soon possess unanimity of opinion as to the reforms they desire, and influence with Congress to put their views into effect. If they are united there can be no doubt about their enormous influence. I say this with knowledge of the frequently expressed opinion that American bankers lack political influence. Individually, perhaps, but collectively and unitedly, I am sure this cannot be true.

And now, if you will permit me, I will outline in a few words the shape which in my opinion the first reforms in banking in this country should assume. I am aware that I was asked to speak about the practical issue of the moment, and I am only advancing a theory—and one which I fear may not even be acceptable to the banks of very small capital, even if acceptable to others. But such as it is, it is all that I have to offer.

1. The National Banking System, including the bond-secured notes, and the ten per cent. tax on State-bank issues to continue, with such alterations in details as may be necessary. If the reforms proposed were shown by time to be successful, other measures looking to the extinction of the National Banking System and the ten per cent. tax could be considered when necessary.

2. Any bank with a paid-up capital of \$1,000,000 or over, to be allowed to issue notes, say to the extent of 75 per cent. of the paid-up capital, secured only by being a prior lien on the assets of

the bank, including the double liability of stockholders, and by an insurance fund of say five per cent., and to be free from the ten per cent. tax. Such banks to be allowed to establish branches within the State in which the head office is situated. If the franchise is granted by a State the Federal Government to approve of the regulations securing the note issues, and to hold the insurance fund. I do not enter upon the question of what the minimum paid-up capital should be in the case of banks desiring to avail of such bank issues but not to open branches. I hope, however, it might be practicable to make it as high as \$500,000.

3. Any bank with a capital of say \$5,000,000 or over, to have the same privileges as to note issues and to be allowed to establish branches throughout the United States, limited, if thought necessary, to cities of national and not local importance. Such a franchise would, I suppose, be granted by the Federal Government. In view of all that has happened since the war, I presume it would not be too great a stretch of Federal power to grant such a franchise.

4. Banks should have the undoubted power to buy and sell foreign bills of exchange, to issue letters of credit, and perform all the functions usually performed by banks in Great Britain and Canada. In Canada, although we work under a general banking act as the National Banks here do, we act on the theory that we may do anything within the scope of banking which is not expressly prohibited by the Act. In the United States, while a few banks deal in exchange and letters of credit, others think they have not the power.

It may be argued that the necessary legislation to effect such a reform could not be obtained even if the silver difficulty were removed, and that the discussion of such a plan is therefore useless. To this I can only say that the same may be true of any radical reform which is attempted. It may be found that without some years of persistent education of the public by the bankers no comprehensive reform can be put in force. The real question seems to be, would such a change cure or even alleviate some of the present defects? Any change is in the nature of an experiment. If the American banker did not, even to a moderate extent, take advantage of the permission to open branches, accompanied by the privilege to circulate notes not specially secured, then such a reform would partly fail of the desired result. I can imagine nothing in banking so attractive as a bank with say \$10,000,000 of capital, a head office in New York, and branches in such cities

as Boston, Philadelphia, Buffalo, Pittsburg, Chicago, Minneapolis, Duluth, Cincinnati, St. Louis, Kansas City, Omaha, San Francisco, Galveston, New Orleans, Atlanta and others of similar importance, gathering deposits everywhere, lending only on the choicest mercantile paper, the leading staples of commerce, and the best bond and stock securities, possessing powerful alliances with foreign banks enabling it to buy and sell foreign exchange and issue letters of credit on all countries—able indeed, to perform the whole round of functions performed by the great banks of Europe. If the Bank of Montreal can lend ten millions safely in Chicago through an agency, cannot a bank with headquarters in New York do it? If it is safe for hundreds of New England banks to fill their wallets with the paper and securities arising from grain, flour and other business in Illinois and Minnesota, purchased through note brokers, or by rediscounting for western banks, could not branches of Eastern banks do such a business better? And in times of trouble would not the existence of several such banks, and of many other powerful banks with branches restricted to sections of the United States, be a source of financial strength sufficient to set the pace of courage to the smaller banks, and to the whole mercantile community?

But opening branches is, of course, only an option in the plan I suggest and is not compulsory. If American bankers did not take kindly to the branch system, there would still remain the fact that the amalgamation of smaller banks into banks with at least the capital of \$1,000,000 would be necessary in order to avail of the privilege of issuing bank-notes not secured by Government bonds. This would ensure the number exercising the privilege not being too great to permit active scrutiny by Federal and State authorities and the general public; it would render the actual redemption of notes by the issuing banks, which is so necessary to elasticity and safety, infinitely easier than if the banks exercising the privilege were numbered by the thousands; and it would tend to lessen the present enormous difference in average size between the American banks and those of other countries.

If it is admitted that large banks with branches would effect a better distribution of loanable capital, and that large banks, with or without branches, would make note issues, of the character suggested by the Baltimore plan, more practicable and safe than if issued by small banks, there remains the question as to whether the functions now performed by the Treasury, such as supplying gold for foreign shipment or other purposes, would be taken up

readily by such banks when the Treasury is relieved from them. As long as the volume of Treasury notes redeemable in coin is measured by hundreds of millions, the New York banks will doubtless cause the Treasury to supply all gold needed for foreign shipment, but sooner or later the duty will fall mainly on these banks. It may well be said that the New York City bankers have shown such high ability and fertility of resource that we may be sure they will be able to establish the machinery for such a purpose, but I have to submit that many of the enormous difficulties which the New York City bankers have had to meet have been due to the lack of individual power and the necessity, when creating strength by the co-operation of the many, of the strong carrying the weak. A system which would create in New York institutions, to any one of which the supplying of a few millions of gold for export, and the replenishing of its reserves through its branches and alliances with large country banks, would be an easy matter, would surely be better than the present.

My suggestions end here, and I must thank you for listening to my views, whether you regard them as worthy of further consideration, or as one of the now countless plans offered in this country of free speech for the reform of the great national problem of finance. The excuse for these countless plans is that Congress does nothing, while the problem transcends all others in importance. I find in a pamphlet on American finances, written in 1874, a quotation from a French writer, offered then because of its applicability to America, and equally applicable now ; with it I will close :

"The French finances connect themselves, on all sides, with all our past and present history ; with all our history, monarchical and republican, political and religious, economic and social ; with all our victories as well as all our disasters, with all the aspects and all the progress of our administration, with all the conquests of our industry, of our agriculture and our commerce, with all the achievements of our art ; in a word, with all the epochs which have made famous the name of France. For it must be said, and said whatever men may think of it, *that the finances touch everything, help everything, conclude everything.* They are in the state what blood is in the veins of the human body ; if it circulates, it carries along with it motion and life, if it stops paralysis and death supervene. Good organization, good administration, a good condition of the finances, exert, therefore, imperiously everywhere and always, a positive, healthful and vivifying action upon the government of a country and the prosperity of its people."

Saratoga, N.Y., 10th July, 1895.